



BUDGET COMMITTEE



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U.S. Senator Judd Gregg
Floor Statement on Economic Stimulus Package
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(Unofficial Transcript)

I rise to speak a little bit about the issue of the economy and how we address the question of economic stimulus in the context of what is a very severe slowdown recession and in the context of what is an extraordinary situation relative to our deficits.

Just yesterday the Congressional Budget Office (CBO) reported that the deficit this year will be \$1.2 trillion. That's a number which most of us can't even fathom, but to try to put it in a little context, that size of deficit has not occurred in this country -- if you calculate it as a percentage of GDP, since World War II. It is a deficit that is extraordinarily large, and a deficit that means we are running up debt that our children are going to have to pay for. And so it has a real effect on the next generation, and generations after that, and their ability to be prosperous.

Not only does CBO tell us that the deficit will be \$1.2 trillion, but they also tell us that with the stimulus package that is being proposed, and the package that is being talked about is in the range of \$700 to \$800 billion. That when you throw that spending on top of the deficit, you're talking about a deficit that will be closing in on \$2 trillion. \$2 trillion, which is about 11% of GDP; that will be almost four times larger than the largest deficit we have run since World War II.

There are a lot of things causing this, of course, and most of them are tied to the economic slowdown. And the economic slowdown is severe. But as we try to mute and lessen the impact of that slowdown on everyday working Americans, we have to be careful that we don't do things which aggravate significantly in the out years this country's fiscal strength and our children's ability to have a high quality of life.

I have said on numerous occasions that I believe that President-elect Obama is on the right track relative to bringing forward a very robust and aggressive package, but what is key to determining whether that package is a good package or marginal package is the policy that underlies it. It's not the number so much as it is the policy. And I believe there are a few signposts which we should follow as we develop such a package.

The first is that we not unduly aggravate the long-term debt situation we have as a country. We know that we are facing a fiscal tsunami as a nation. The baby-boom generation is about to be fully into retirement. During the term of this presidency, should the president be reelected, the baby-boom generation will be very close to full retirement. That will mean we will have doubled the number of people who retire in this country and the cost of maintaining those retirees will put massive burden on the backs of the taxpayers of this nation, especially the next generation. We're talking about \$60 trillion coming at us. That's debt that's coming at us. That doesn't count the debt we're putting on the books today to deal with this economic slowdown.

And so what is very critical is that as we address trying to get the economy going by using a stimulus package, we've got to be very careful that we put in place programmatic activity that doesn't add to the long-term debt of the nation. That they are one-time items that will basically retract and no longer be part of the deficit function, or add to the deficit function in the out-years.

The TARP program is a good example. The TARP program was the program which we put in place to try to stabilize the financial institutions of this country, and it has. That program basically used investment versus spending relative to tax dollars. We purchased preferred stock in a series of financial institutions across this country. The purchasing of that preferred stock has helped to stabilize those financial institutions and the financial system of the nation. The purchase of that preferred stock creates a significant jump in the deficit for next year depending on how much of the dollars we end up using of the TARP funds; it could be \$400 billion or \$500 billion. But in the out-years we're going to get that money back because we're buying assets. In fact, we will get it back with interest, and we may actually make a little money for the taxpayers, which would be good. They deserve to make money off of that initiative. That type of investment is a one-time event which may aggravate the deficit in the short run, but does not aggravate the deficit in the long run. That's the type of initiative we need to look at.

In the area -- and this is being talked about a lot -- of the federal government going out and just spending money, not investing money in assets that come back to us, we have to take the same approach, that we are going to put the dollars of the stimulus package into initiatives which will make our nation more competitive and more productive in the out-years so that we get more tax revenues hopefully, but at least have more jobs created in this country as we compete in the worldwide economy.

Thus, as we invest in infrastructure, it is absolutely critical that we have entry-level tests to be sure that the infrastructure we are investing in is infrastructure which is going to produce out-year returns to us beyond the dollars that are put into them.

Now, we all love things like beautifying Main Street, or putting in running tracks, some people even like halls of fame for this thing or that thing. But that's not the type of infrastructure or investment which is going to help us be a more competitive and create more jobs. And the bottom line here is to create more jobs. What we want to do is invest in things that are going to create more jobs and make us more competitive in the global

economy: roads, bridges, broadband, high-speed broadband in areas that aren't quite dense enough population-wise to make it affordable, IT - especially in these quasi-public areas like health care, which will give us a return on our investment. And military, we've got the Chairman of the Armed Services Committee sitting in the chair, we've got to obviously retool our military. These are investments which give us a long-term return.

And so I hope that as we get the stimulus package that there will be some entry-level tests, which as we send this money out to the states primarily – I suspect that's where it's going to go, to states and communities – that they have to meet these tests before they can spend the money so that we get a return on those dollars in the way of making our nation more competitive and more productive. I would hate to see us just give it to the states with very little limitation on how they spend it, because a lot of the money will unfortunately be wasted.

I know in my state unfortunately every community is pulling together their wish list, and I've seen things on the wish lists like putting in alarm systems in dorms. It is not the responsibility of the federal government to do that. What is the responsibility is to replace a bridge, or build a bridge, or put broadband into a region of the state which couldn't get it otherwise because of density issues, or give our health communities a better way to do their IT so they're more efficient. We do need these tests.

In addition, everything in this stimulus package needs a hard sunset so that when we get to the end of this recession, we don't continue these programs into the future. And by hard sunset, in my view, for a program to continue under this, it would have to have a two-thirds vote in order for it to continue.

Another major initiative in the stimulus package, it appears, will be tax initiatives. And I respect -- first off, I admire the energy and focus of the Obama team on these issues, and I think he has put together an extraordinarily talented group of people in many areas, but especially in the fiscal area, with Secretary-designate Geithner and Larry Summers and Paul Volcker. It is my view that as we look at the tax part of this component -- and I understand it is going to be fairly big -- that that tax component should be focused on where we create jobs, because this is the issue.

It is pretty obvious in our economy that jobs aren't created by big business or government. Jobs are created by entrepreneurs who start something small and it builds. The majority of the tax initiatives should be focused on job creation and specifically on assisting people who are willing to take risks in the small business community.

There is a lot of discussion about a major employment credit. You know, if you hire people, you get a credit for employment. I tend to think that is probably not going to generate a lot of economic activity. You know, if somebody is going to hire someone, they're going to hire them and they'll take advantage of it obviously. But people actually adding people because they have a credit for adding people, the odds are slim. I suspect it will be money put out the door and not produce much in results.

And we have a pretty good and pretty recent example of how this works in the area of tax policy, because we did a stimulus package which was keyed off of a tax rebate last spring. And \$117 billion of a \$168 billion package was in tax rebates, and it generated virtually no greater consumption. There are pretty good statistics which have shown consumption was not increased significantly at all by that tax rebate initiative.

So a tax rebate approach is probably not going to get you a lot in the area of bang for your buck. What we want is to come out of this slowdown a stronger, more productive nation by making capital investments and using tax policies to generate those investments so that we can compete better in the world economy. And I would hope that that would be the approach that is taken.

There is another proposal here which addresses the issue of states. And this one is the most problematic of all of the initiatives in the stimulus package for me. There are a lot of states that have been fiscally responsible and actually have surpluses and some states said they don't need this sort of support. There are other states whose revenues have dropped precipitously because we're in this economic slowdown, and they didn't have any control over that, and they have a legitimate claim that they are in dire straits. There are other states that spent a lot of money during a recession which was really out of proportions with what good fiscal policy allows.

And so I would hope that as we're talking about assisting states -- and I understand it's going to come in through probably the FMAP, the Medicaid programs -- that we have some conditionality there that says if the state's financial distress is caused by a drop in revenues, then we'll be supportive. But if the financial distress is caused by the fact that they have been excessive in their programmatic activity beyond what is reasonable in these slow times, we shouldn't be underwriting that sort of activity that is inappropriate from a standpoint of fiscal restraint. We should rather be focused on assisting states who have seen significant drops in their revenue. Difficult to do, but I believe it can be done and I believe it should be done.

It is obvious that we need a robust stimulus package right now, and it is very obvious that we need to have it sooner rather than later. And from my standpoint as a member of the Republican Party, which is in opposition here arguably, I want to work with the other side of the aisle and with the President-elect to accomplish it, because I don't think we can afford partisan politics at this time. We need to govern. These issues are so huge and are going to have such a devastating impact on our nation if they're not aggressively and boldly addressed, that we can't afford for this just to be a party-line event.

We need to have cooperation. We've got a template for that, when we took up the TARP bill, which was a really extraordinary piece of legislation, it was done because we recognized the crisis was upon us and action had to be taken. And it was done in a totally bipartisan, and I thought, a very effective way. And that's a good template for moving forward.

So I just lay these ideas out as an approach to take, and I say from my standpoint, to the extent I can participate in this -- and I hope I can -- I'm willing to listen to any ideas, and I want to see us make progress. And I want to see it be prompt, because in this area it is absolutely critical that the President-elect succeed for the nation's good. Thank you. I yield the floor.